

Message Text

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TO AMEMBASSY KINGSTON

C O N F I D E N T I A L STATE 081007

E.O. 11652:

TAGS: EAID, ECON; JM

SUBJECT: WORLD BANK VIEWS ON JAMAICA

REF: STATE 72029

1. REPRESENTATIVES OF THE DEPARTMENT AND AID MET INFORMALLY WITH IBRD STAFF MARCH 31 TO REVIEW BANK'S ECONOMIC MISSION REPORT PUBLISHED MARCH 8 AND TO DISCUSS PROSPECTS OF BANK ASSISTANCE FOR JAMAICA. MEETING WAS A FOLLOW-UP OF EARLIER DISCUSSIONS BETWEEN AMBASSADOR RATTRAY AND DEPARTMENT.

2. BANK STAFF REPORTED ON SEVERAL MAIN CONCLUSIONS OF REPORT WHICH HAVE BEEN REVIEWED BY GOJ.

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-- REAL GDP MAY DECLINE BY AS MUCH AS 5 PERCENT IN 1976 DUE TO CURRENT LOW LEVEL OF ACTIVITY IN BAUXITE AND TOURISM INDUSTRIES, DECLINE IN PRIVATE INVESTMENT AND ECONOMIC POLICIES NECESSARY TO CONTROL INFLATIONARY PRESSURES AND RESTORE BALANCE OF PAYMENTS VIABILITY.

-- WELFARE STATE POLICIES HAVE INCREASED PRIVATE CONSUMPTION WITHOUT STIMULATING PRODUCTION AND THUS CONTRIBUTED TO DETERIORATION OF BALANCE OF PAYMENTS AND FINANCIAL POSITION OF PUBLIC SECTOR.

-- UNEMPLOYMENT, OFFICIALLY ESTIMATED BY GOJ AT 21 PERCENT REMAINS JAMAICA'S MAJOR SOCIO-ECONOMIC PROBLEM. AN ESTIMATED 10 PERCENT OF LABOR FORCE CURRENTLY COUNTED BY GOJ AS UNEMPLOYED IS COMPRISED LARGELY OF UNSKILLED, UNEDUCATED WOMEN, MANY OF WHOM HAVE FAMILY RESPONSIBILITIES. ALTHOUGH WILLING TO WORK THEY ARE NOT ACTIVELY SEEKING EMPLOYMENT. ASSISTANCE TO THIS GROUP REQUIRES BROADER SOCIAL MEASURES THAN JOB CREATION ALONE. CONSEQUENTLY BANK CALCULATES ADJUSTED UNEMPLOYMENT RATE AT 11 PERCENT, OR ABOUT 80,000 PERSONS.

-- BANK OPTIMISTIC THAT EMPLOYMENT CAN BE SIGNIFICANTLY INCREASED BY GIVING PRIORITY TO INVESTMENT IN AGRICULTURAL AND LABOR INTENSIVE MANUFACTURING SECTORS. THESE SECTORS ARE LARGEST SOURCES OF EMPLOYMENT IN ECONOMY AND HAVE HIGHLY FAVORABLE ELASTICITIES OF EMPLOYMENT WITH RESPECT TO SECTORAL GROWTH AS WELL AS LOW INVESTMENT COSTS PER UNIT OF EMPLOYMENT. GROWTH IN THESE SECTORS COULD ALSO IMPROVE FISCAL AND FOREIGN EXCHANGE EARNINGS AND ENCOURAGE IMPORT SUBSTITUTION.

-- BANK ESTIMATES 86,000 NEW JOBS IN THESE PRODUCTIVE SECTORS COULD BE CREATED DURING 1976-80 WITH CONCERTED EFFORT BY GOJ TO IMPROVE COST COMPETITIVENESS OF EXPORT PRODUCTION BY IMPLEMENTING AN EFFECTIVE INCOMES POLICY, CONCENTRATING MANUFACTURING DEVELOPMENT IN THOSE SPECIALIZED SKILLED, LABOR-INTENSIVE INDUSTRIES IN WHICH JAMAICA ENJOYS A COMPARATIVE ADVANTAGE AND RATIONALIZING AGRICULTURAL PRODUCTION. STAFF OBSERVED GOJ MAKING SOME PROGRESS IN AGRICULTURE BUT LOCAL ENTREPRENEURS ARE CONFIDENTIAL

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RELUCTANT TO INVEST IN INDUSTRY DUE TO UNCERTAINTIES REGARDING GOVERNMENT POLICIES.

-- DEVELOPMENT STRATEGY SUGGESTED BY IBRD WOULD PLACE LESS EMPHASIS UPON THE LEADING SECTORS OF THE 1960'S AND EARLY 1970'S, NAMELY BAUXITE-ALUMINUM AND TOURISM. BANK REPORT NOTES THAT HIGH INVESTMENT COSTS PER UNIT OF EMPLOYMENT AND THE AVAILABILITY OF PRIVATE INVESTMENT

RESOURCES DICTATE AGAINST AN UNDUE CONCENTRATION OF PUBLIC INVESTMENT IN BAUXITE-ALUMINA. WITH RESPECT TO TOURISM, CURRENT CAPACITY SUFFICIENT TO MEET PROJECTED DEMAND OVER MEDIUM TERM. BOTH SECTORS SHOULD BE REGARDED AS SOURCES OF FISCAL AND FOREIGN EXCHANGE RESERVES THAN AS PRINCIPAL USERS OF SCARCE PUBLIC SECTOR RESOURCES. SIMILAR VIEW EXPRESSED REGARDING PROPOSED LUANA POINT REFINERY WHICH HAS A CAPITAL INVESTMENT OF DOL 320,000 PER JOB CREATED AND OTHER CAPITAL INTENSIVE PROJECTS. (INTER-AMERICAN BANK CURRENTLY HAS LOAN REQUEST FOR LUANA POINT REFINERY UNDER REVIEW.)

-- BANK GENERALLY OPTIMISTIC ON LONGER TERM OUTLOOK FOR KEY EXPORTS AND BELIEVES JAMAICA HAS POSSIBILITY OF BOTH REDUCING UNEMPLOYMENT AND ACHIEVING 6 PERCENT REAL GROWTH RATE IF GOJ TAKES FIRM ACTION ON POLICIES TO STABILIZE DOMESTIC ECONOMY AND RESTORE CONFIDENCE OF PRIVATE SECTOR. STAFF ECONOMIST EXPRESSED VIEW JAMAICAN CURRENCY OVER VALUED AND WOULD HAVE TO BE ADJUSTED TO ACHIEVE GOALS.

-- AGGREGATE INVESTMENT REQUIREMENT NECESSARY TO ACHIEVE IBRD PROJECTED SECTORAL GROWTH AND EMPLOYMENT TARGETS ESTIMATED IN REPORT TO EQUAL ABOUT 20 PERCENT OF GDP OVER 1970-80, OR A TOTAL OF ABOUT JAMAICAN DOL 2.4 BILLION. OF THIS, REQUIRED PUBLIC SECTOR INVESTMENT IS ESTIMATED AT JAMAICAN DOL 1.5 BILLION AND REQUIRED PRIVATE SECTOR INVESTMENT AT JAMAICAN DOL .9 BILLION. DOMESTIC SOURCES WOULD HAVE TO FINANCE ABOUT TWO-THIRDS OF THE PUBLIC SECTOR INVESTMENT PROGRAM DURING 1976-80. THESE REQUIREMENTS SHOULD BE WITHIN THE FISCAL AND FINANCIAL CAPACITIES OF THE ECONOMY, PROVIDED GOJ EXERCISES FIRM CONTROL OVER THE GROWTH OF RECURRENT

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EXPENDITURES AND THE PRIVATE SECTOR INVESTMENT CLIMATE IMPROVES. EXTERNAL CAPITAL REQUIREMENTS ARE ESTIMATED AT US DOLS 275 MILLION ANNUALLY.

3. IBRD STAFF DOES NOT ENVISION BANK BEING ABLE TO HELP GOJ'S IMMEDIATE BALANCE OF PAYMENTS PROBLEMS. STAFF NOTED GOJ HAS RECENTLY AVAILED ITSELF OF THE IMF GOLD TRANCHE AND PURCHASED SDR 29.2 MILLION UNDER THE OIL FACILITY. HOWEVER, GOJ STILL HAS POSSIBILITY OF SEEKING FURTHER IMF HELP UNDER COMPENSATORY FINANCING SCHEME AND DRAWING ON REGULAR QUOTAS. POSSIBILITY OF IBRD PROGRAM LOAN DISCUSSED IN GENERAL TERMS. STAFF SAYS BANK DIRECTORS ARE RELUCTANT TO UNDERTAKE PROGRAM LENDING AND IN CASE OF JAMAICA THERE IS NO "PROGRAM" TO SUPPORT. POSSIBILITY OF BANK ACCELERATING DISBURSEMENTS OF EXISTING LOANS, INCLUDING PROVISION OF ADVANCES, WAS

ALSO DISCUSSED. STAFF INDICATED THERE MAY BE SOME AREAS FOR IMPROVEMENT BUT AMOUNTS WOULD NOT BE SIGNIFICANT IN OVERALL CONTEXT OF PROBLEM.

4. IBRD STAFF REPORTED THAT IN ADDITION TO AN OUTSTANDING PORTFOLIO OF ABOUT DOL 80 MILLION, BANK HAS ACTIVE LIST OF PROJECTS UNDER CONSIDERATION. THIS LIST INCLUDES BOTH RURAL AND URBAN FOCUS. WITH REGARD TO THE RURAL SECTOR:

- AN APPRAISAL REPORT IS CURRENTLY BEING PREPARED ON LOAN OF UP TO DOL 15 MILLION FOR RURAL DEVELOPMENT.
- AN APPRAISAL MISSION IS IN THE FIELD STUDYING A PROPOSED LOAN OF UP TO DOL 14 MILLION FOR AGRICULTURAL CREDIT.

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- THE BANK IS AWAITING COMPLETION OF PROJECT PREPARATION BY THE SUGAR INDUSTRY AUTHORITY.

- AN APPRAISAL REPORT OF A RURAL POPULATION AND NUTRITION PROGRAM IS BEING CONSIDERED FOR A DOL 6 MILLION LOAN.

WITH REGARD TO THE URBAN SECTOR:

- THE BANK EXPECTS TO RECEIVE A REQUEST FOR PHASE II OF KINGSTON WATER SUPPLY.
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- THE BANK WOULD BE RECEPTIVE TO ADDITIONAL URBAN DEVELOPMENT PROGRAMS AS A FOLLOW ON TO THEIR CURRENT SITES AND SERVICES PROJECT WHICH INCLUDES FACILITIES FOR SMALL INDUSTRY. HOWEVER, THE STAFF NOTES THAT THE PROJECT HAS BEEN DELAYED BECAUSE OF THE POLITICAL UNREST AND OTHER REASONS. OTHER PROJECTS "ON THE LIST" INCLUDE A LOAN OF UP TO DOL 10 MILLION FOR THE JAMAICA PUBLIC SERVICE COMPANY FOR WHICH A PREPARATION MISSION IS IN THE FIELD AND A FUTURE EDUCATION PROJECT.

5. THE BANK STAFF NOTED THAT THERE IS AN ABSORPTIVE CAPACITY QUESTION WHICH HAS BEEN ACCENTUATED AS THE GOJ HAS EXPANDED THE SCOPE OF PUBLIC SECTOR ACTIVITIES. NOTING THAT THE INTER-AMERICAN DEVELOPMENT BANK ALSO HAD A MAJOR PORTFOLIO, THE STAFF WAS DUBIOUS ABOUT THE GOJ'S ABILITY TO DEVELOP AND IMPLEMENT A LARGER PROGRAM AT THE MOMENT. LEAD TIME FOR PROJECT DEVELOPMENT TENDS TO AVERAGE ABOUT TWO YEARS AND THEY SAW LITTLE POSSIBILITY OF REDUCING THIS LEAD TIME. IBRD REPORT HIGHLIGHTS IMPORTANCE OF GOJ IMPROVING PROJECT PREPARATION CAPABILITIES.

6. WE QUERIED THE BANK STAFF AS TO WHETHER THEY WOULD BE INTERESTED IN CONSIDERING JAMAICA FOR A PILOT PROGRAM ON URBAN EMPLOYMENT BUILDING UPON THE REPORT STRATEGY OF SMALL MANUFACTURING DEVELOPMENT. THEY DID NOT PRECLUDE THIS POSSIBILITY. (THE INTER-AMERICAN DEVELOPMENT BANK CURRENTLY HAS UNDER STUDY A REQUEST FOR A NEW DOL 20 MILLION INDUSTRIAL CREDIT LOAN FOR THE JAMAICAN DEVELOPMENT BANK.) THE BANK STAFF INQUIRED ABOUT THE POSSIBILITY OF AID FINANCING. WE ADVISED THAT THE PROSPECTS OF AID FINANCING WERE LIMITED DUE TO THE CONGRESSIONAL EMPHASIS ON ASSISTING THE POOREST COUNTRIES AND THE FOCUS ON AGRICULTURE, HEALTH AND EDUCATION.

7. JAMAICAN AMBASSADOR RATTRAY WILL BE MEETING ON APRIL 2ND WITH DR. ADALBERT KRIEGER VASENA, IBRD VICE PRES. FOR LATIN AMERICA AND THE CARIBBEAN. STEVE ROGERS, ARA/ECP, WILL ALSO BE PRESENT. KISSINGER

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